

REPORT TO: CABINET

DATE: 15 SEPTEMBER 2016

TITLE: HOUSING REVENUE ACCOUNT QUARTER 1, FINANCE REPORT 2016/17

PORTFOLIO HOLDER(S): COUNCILLOR MARK WILKINSON

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This is not a Key Decision

This decision is not subject to Call-in procedures for the following reasons: The recommendations are within the scope of the budget which has been approved by Full Council.

This decision will affect no ward specifically.

RECOMMENDED that CABINET:

A Acknowledges:

- (i) A favourable variation against the approved HRA operational/controllable budget of £150,000 representing 0.29% of the gross Housing Revenue Account (HRA) budget.
- (ii) A total projected overspend of £3,215,000 representing 6.14% of the gross HRA budget. The variation is directly associated with adjustments to capital programme financing as a result of the agreed outturn from 2015/16 (paragraph 3).

B The forecast balances at 31 March 2017, of £6,800,000 in respect of the Housing Revenue Account and nil in respect of the Major Repairs Reserve (as identified in Appendix C) are noted.

REASON FOR DECISION

- A To ensure that Cabinet reviews performance against the approved HRA Business Plan and acknowledges the operational variations in light of the challenges the Council may face in the later part of this financial year and future years.

BACKGROUND

1. This report sets out the Council's financial performance against the agreed HRA Budget 2016/17 and provides an indication of the budget projection as at 31 March 2017.
2. In February 2016 the Council approved a **minimum** revenue balance of £2.727m in 2016/17 and, due to the uncertainty surrounding the Government's proposal for the sale of high value void properties in 2016/17 an addition £1.6m provision, bringing the total approved balance to £4.327m.
3. The 2015/16 HRA outturn report to Cabinet 21 July 2016 approved an **actual** HRA balance at 31 March 2016 of £12,298,000 as a result of the deferral of revenue contributions to capital in 2015/16 and the requirement for the funding of capital carry forwards.
4. As a result of the approved capital carry forwards agreed at the July meeting of the Cabinet and the associated revenue funding required, the **actual** HRA balance is now projected to be £6.8million at 31 March 2017 and details of the revised balance are provided later in this report.

ISSUES

Variances

5. The operational variance for 2016/17 against the original estimate totals (-) £150,000 underspend (see Appendix A). Key items driving this variation are:
 - A favourable variance of (-) £255,000 from staffing vacancies in General Management. It has proved difficult to recruit to some posts and vacancies have continued in the first quarter resulting in a saving against salary budgets.
 - The schedule of work to Priority Estates was revised with Phase One fully decanted by 31 March 2016. In order to maintain the security and cleanliness of the estates in this period of movement and demolition, work estimated at £69,000 is required, which was not budgeted. Home loss payments and moving incentives arising from this process are in large part statutory and also demand led

- The HRA supports homeless applicants who are identified as future tenants by providing transitional funding. Due to rising demand for temporary and homeless accommodation there is a projected overspend of £53,000 (original budget £267,000).
 - Rental income from housing stock is lower than estimated due to the higher level of right to buy sales and voids from Priority Estates in the first quarter.
6. There is a non-operational variance totalling £3,365m. This is due to the higher direct revenue contribution required to support the Housing Capital Programme following £3,824m of carryovers from 2015/16 offset by a further carryover identified of £1m to 2017/18, in respect of external works. The impact of the carryovers and the consequent effect on leasehold contributions to capital financing result in a projected direct revenue contribution for 2016/17 of £10.924m (original estimate £7.559m).

The above issues are reported more fully in the Housing Capital Programme Quarter 1 report.

7. At 31 March 2016 there was a nil balance on the Major Repairs Reserve (MRR). The estimated depreciation charge for 2016/17 of £10.777m is expected to be used in full to support the Housing Capital Programme.
8. The regulations require that the MRR balance can be used either to finance the capital programme or to repay housing debt. The HRA Business Plan 2015-45 approved by Council in February 2016, states that external borrowing will be renewed on maturity in March 2026.

HRA BALANCES 2016/17

9. The HRA working balance at 31 March 2017 is now estimated to be £6,800,000 as set out below.

	£ millions
Revised approved balance in hand 1.4.16	7,226
Increase in balance in hand (July Cabinet)	5,072
Actual balance in hand 1.4.16 (July Cabinet)	12,298
i) Original deficit (February Council)	(1,969)
ii) 2015/16 carry forwards (July Cabinet)	(315)
iii) Capital variations	(3,365)
iv) Operational variations	150
Projected balance at 31.3 2017	6,800

SIGNIFICANT RISKS / OPPORTUNITIES

10. The HRA Business Plan 2015-2045 is subject to review as major Government reforms and other influences impact upon it.

11. The Government announced in July 2015 a legislative requirement for social landlords to decrease rents annually by 1% over the next four financial years (2016/17 – 2019/20). This has challenged councils to make efficiencies in order to deliver sustainable services.
12. The following risks have been identified which could affect the HRA Business Plan:
 - (i) **Welfare Reform:** the Government's reduction in benefits to non-working families may have an adverse impact on tenants' ability to pay.
 - (ii) **Rent income:** see paragraph 11 above, but also the introduction of the Government's Higher Income Social Tenants (Pay to Stay) policy to charge households earning over £31,000 higher rents. Regulations have yet to be made by the Government.
 - (iii) Continuing development of a Capital Programme to deliver decent homes in partnership with contractors, and the need to deal with unexpected outcomes especially in light of constraints arising from the reduction in rental income from 2016/17.
 - (iv) The continuing work in the Housing Capital Programme means there is a higher risk of finding and removing asbestos from properties, which in turn may increase removal and compensation costs in the revenue budget.
 - (v) Government policy regarding the sale of larger properties in support of Registered Social Landlord (RSL) Right to Buy proposals, for which the details of how this will operate and impact on the Council are still awaited.

IMPLICATIONS

Place Services (includes Regeneration)

None specific.

Author: **Graeme Bloomer, Head of Place Services**

Finance (Includes ICT)

As contained in the body of the report.

Author: **Simon Freeman, Head of Finance**

Housing

As contained in the body of the report.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

None specific.

Author: **Brian Keane, Head of Governance**

Background Papers

CIPFA Code of Practice 2012/13.

CIPFA Financial Advisory Network paper “HRA Depreciation, Impairment and Valuation Losses (England)”.

Glossary of terms/abbreviations used

HRA: Housing Revenue Account.

MRR: Major Repairs Reserve.

RSL: Registered Social Landlord

CLG: Department of Communities and Local Government

RTB: Right to Buy

HTS: Harlow Trading Services (Property & Environment) Ltd

APPENDIX A
Period 3

HRA Operational Variances (against Original Estimate)				
Item	Adverse £000's	Favourable £000's	Net £000's	Main contributing Factors to Variations
General Management		(-)255	(-)255	Net vacancy savings on salaries due to delays in recruitment.
General Management	69		69	Unbudgeted cost of street cleaning and security in the remaining areas of the Priority Estates.
General Management		(-)19	(-)19	Savings in the cost of the contact centre identified after estimates approved.
Special Management	53		53	Increased demand for temporary accommodation which the HRA supports through transitional funding.
Dwelling Rents	33		33	Lower projected rental income in 2016/17 from high number of RTB sales (23) and voids in the first quarter.
Garage Rents		(-)36	(-)36	Higher income from garage rents due to lower void rates, improved maintenance, changes to lettings policy.
Charges for Services and Facilities		(-)13	(-)13	Higher leasehold income than estimated offset by 2014/15 adjustment for tenant service charges due.
Other minor variances	17		17	
Deficit/ (Surplus) for year	173	(-)323	(-)150	

Non Operational Variances				
Item				
Revenue Contribution to Capital Expenditure	0	3,365	3,365	Additional funding to the Housing capital programme due to carryovers and financing changes.
Major Repairs Reserve (depreciation)	0	0	0	
Deficit/ (Surplus) for year	0	3,365	3,365	

HRA Operational Variance (-)£ 150,000

HRA Non Operational Variance £3,365,000

TOTAL Projected HRA Underspend	£3,215,000
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APPENDIX B

HOUSING REVENUE ACCOUNT BUDGET SUMMARY 2016/17

PERIOD 3

	2016/17 Revised Budget* £	Forecast Outturn £	Variance £
<u>EXPENDITURE</u>			
General Management	11,995,084	11,806,060	(-)189,024
Special Management	5,603,057	5,661,716	58,659
Repairs	9,477,990	9,477,983	(-)7
Rents Rates Taxes & Other Charges	30,000	30,000	(-)0
Provision for Bad & Doubtful Debts	200,000	200,000	0
Supporting People Transitional Arrangements	6,100	6,100	0
Major Repairs Reserve	10,777,000	10,777,000	0
Debt Management Expenses	16,520	16,520	0
Interest Charges	6,677,000	6,677,000	0
Direct Revenue Contribution	7,559,000	10,924,000	3,365,000
	52,341,751	55,576,380	3,234,629
<u>INCOME</u>			
Dwelling Rents	45,183,000	45,149,527	33,473
Garage Rents	1,005,000	1,041,473	(-)36,473
Other Rents	22,000	22,000	0
Charges for Services & Facilities	3,791,197	3,808,182	(-)16,985
Interest Receivable	57,000	57,000	0
	50,058,197	50,078,181	(-)19,984
Balance in hand at 1 April	12,298,386	12,298,386	0
Surplus / (Deficit) for year	(-)2,283,554	(-)5,498,198	(-)3,214,644
Balance in hand at 31 March	10,014,832	6,800,188	(-)3,214,644

*Budget 2016/17 includes carryovers from 2015/16, £315,000

Appendix C: Relationship between HRA, MRR and Capital Programme

(+ = expenditure)

	HRA	Major Repairs Reserve	Capital Receipts Unapplied	Total	Housing Capital Programme
	£000	£000	£000	£000	£000
Balance in hand at 1 Apr 2016	(-)12,298	0	0	(-)12,298	0
Deficit/(Surplus) for the year (Original Estimate)	1,969	0		1,969	0
	(-)10,330	0	0	(-)10,330	0
Carry Forwards (Capital)	3,824			3,824	3,824
Operational Variances (Appendix A)	(-)150			(-)150	
Non Operational Variances:					
Decreased DRF 2016/17	(-)459			(-)459	
HRA Operational Carryovers from 2015/16	315			315	
Additional support to Capital Programme from MRR (per Capital Programme Report)					
Net movement in support to Capital Programme			0		-3824
Balance in hand, 31 Mar 2017	(-)6,800	0	0	(-)6,800	0
From 2016/17 Original Estimate					
Balance in hand 1 Apr 2016	(-)7,226	0	0	(-)7,226	
Deficit/(Surplus) for the year	1,969	0	0	1,969	
Balance in hand 31 Mar 2017	(-)5,257	0	0	(-)5,257	